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ABSTRACT

Designed to parallel five student seminars televised over the Cable-Satellite Public Affairs Network (C-SPAN), this handbook provides an overview of current economic issues for high school students. Selections cover inflation, the crisis in American productivity, unemployment in the United States, global economic interdependence, and the role of free enterprise in the 1980's. For each topic, background articles which introduce important terms, concepts, and basic facts are followed by transcripts of panel discussions by five experts in the field. The handbook concludes with a glossary of key terms. (LP)

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Close Up Special Focus: The Economy

Close Up Telecommunications and Publications

Since 1979 the Close Up Foundation, a Washington-based government studies program, has been providing schools and communities with the opportunity to participate in a Close Up view of government through four televised series carried on the Cable-Satellite Public Affairs Network (C-SPAN).

The 30-minute televised seminars, funded by Conoco Inc. and R.J. Reynolds Industries, Inc., feature high school participants in the Washington program questioning key policymakers in lively discussions about important issues.

The Close Up Foundation also publishes print materials to be used with the televised seminars. Together, the print and video materials form a curriculum package that can enhance classroom learning.

One of the mini-series in the program schedule is *Close Up Special Focus on the Economy*. This publication has been designed to be used with the televised Economy seminars. Also available is a curriculum guide.

For more information about Close Up televised seminars and related publications, please contact the Close Up Foundation, 1235 Jefferson Davis Highway, Arlington, Virginia 22202.

This publication was written and edited by Frederick W. Mayer and Sally LaMotte. Research and writing contributions were made by Mary Kay Delaney and [illegible] Shevick. Design and production were [illegible] by Bobbi Walker.

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Introduction

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Today the news is dominated by the economy, and most economic news is disturbing. Inflation is driving prices up, the rate of industrial productivity is down, unemployment remains at high levels, the world economic situation seems increasingly unstable. And the economic news is as confusing as it is disturbing. Some say the problem is too much government interference in the marketplace; others say that business has caused its own problems. Some say that high interest rates will being down the rate of inflation; others say that high interest rates cause inflation. Some say that inflation should be our first priority: others say our first priority should be unemployment. Still others say that we can't fight one without fighting the other. All of this talk can be confusing—so many policies have been proposed to solve the various problems. The challenge for policymakers and for us as citizens is to make sense of all the talk, and to decide what policies are best.

The Close Up Foundation's *Focus on the Economy* television series enables you to explore these issues in more depth than they are explored by the news media. This publication parallels five seminars produced in Washington, D.C., by the Close Up Foundation and televised over the Cable-Satellite Public Affairs Network (C-SPAN). In the seminars, high school students, in Washington as part of the Close Up government studies program, question policymakers and economic experts on important economic problems and their possible solutions. The five seminars are entitled: "Inflation: Is It Inevitable?"; "Productivity: America's Industrial Crisis"; "Unemployment in America: Causes and Effects"; "The Global Economy: Realities of Interdependence"; and "Free Enterprise: What Role for the 80's?" These topics are five of the most important economic issues facing America today.

This publication gives you information to use in developing your own ideas on these subjects. For each of the five topics, a background article introduces important terms and concepts, and provides pertinent factual information with which to evaluate the television programs. Key terms are glossed at the back. Articles as short as these cannot possibly explain everything one needs to know about topics as difficult as inflation and free enterprise, but they attempt to provide a lucid overview of the subject which will enable you to make sense of other information that you receive. While the brevity of the format necessitates some simplification, the text does not duck important issues. To make sense of the complicated economic picture, some complicated ideas need to be addressed.

Following each of the articles is the CLOSE UP Panel on the Economy, five well-known individuals from different professions, who provide balanced and varied perspectives on the issues. Each of the panel members was asked to respond to some basic questions about the economy. Note the similarities and differences in their answers. Each panel member comes from a different background and has his own perspective on the issues. The members of the CLOSE UP Panel are:

Gar Alperovitz, Director of the National Center for Economic Alternatives, a liberal public interest group interested in economic policy.
H. Brewster Atwater, Jr., Chairman of the Board and Chief Executive officer of General Mills, Inc., one of the nation's largest corporation.
Bill Frenzel, U.S. Representative (Republican-Minnesota).
Carl Levin, U.S. Senator (Democrat-Michigan).
Gus Tyler, Assistant President of the International Ladies Garment Workers Union, a labor union with a history of active political involvement.

Inflation: Is It Inevitable?

Inflation is a continuing rise in the general price level — in simple terms, rising prices. The higher the rate of inflation, the faster prices are rising. In 1980, the rate of inflation was approximately 13 percent, which means that prices were 13 percent higher in 1980 than they were a year before.

Inflation has been a fact of life in the United States for some time. As a result, the dollar does not buy as much today as it once did. It now costs over $2.50 to buy the same amount of goods and services that $1.00 would buy in 1967. Many people's incomes have not kept pace; they can buy less now than they could before.

Inflation has a number of bad effects. First, people whose income does not rise as fast as the rate of inflation end up with a lower standard of living. Elderly citizens on fixed incomes, public employees from teachers to military personnel, and non-unionized employees in the private sector all have lost real income in the past few years. Second, high rates of inflation encourage buying on credit and discourage saving. Why save money when it will buy less later? However, good as this philosophy might be for the individual, it is bad for society. If people save less of their money in institutions like savings and loan companies, there is less money to invest in new homes, businesses and equipment. Finally, and perhaps most significantly, high inflation can lead to political instability. The suspicion that government is ineffective in dealing with inflation can undermine people's confidence in their government.

Causes for Inflation

There is no one cause for inflation. Below are some of the most often cited reasons for inflation:

- *Government Spending* - In Fiscal Year 1980 (FY 80, the year beginning October 1, 1979 and ending September 30, 1980), the U.S. government spent approximately $578.8 billion. During the same year, the government took in $518 billion in taxes and other revenues. The difference between the two figures, $61 billion, is the deficit for FY 80.

A deficit of this magnitude is cited as one of the causes for inflation. When the government spends more than it takes in, it must borrow the money to make up the difference This federal borrowing increases the amount of money in circulation (see below) and may drive up interest rates. While the negative effects of a deficit are generally acknowledged, economists disagree over the severity of the effects.

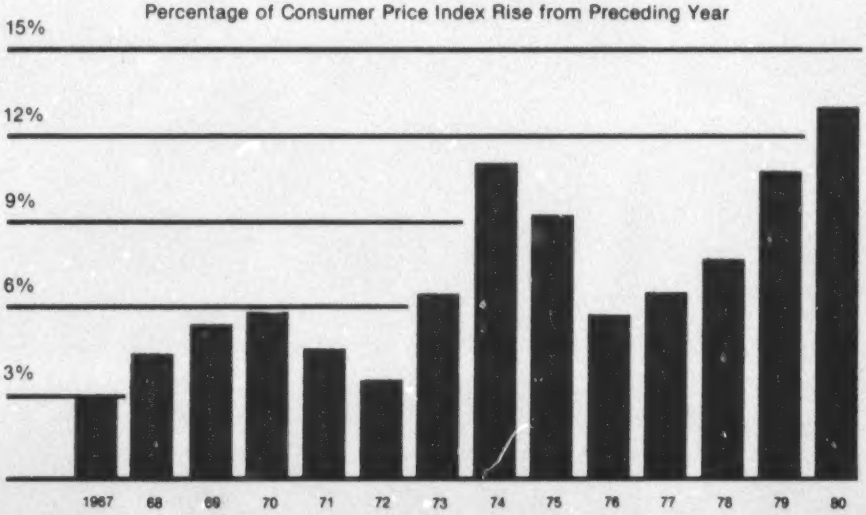
- *Rapid Growth of the Money Supply* - The money supply includes not only the amount of money people have in their hands but also the amount of credit which is available to them. Credit cards and bank loans are devices which enable individuals and businesses to spend more money than they have in hand.

Like individuals and businesses, banks also have credit devices which allow them to receive loans and to increase the amount of money available to them. Banks borrow money from the Federal Reserve Bank. The Federal Reserve Bank loans money to banks at an interest rate determined by the Federal Reserve Board. Banks then loan it to businesses and consumers at a slightly higher interest rate. When the Federal Reserve Bank's interest rate is low, bank interest rates are low and everyone is encouraged to borrow money. This increases the volume of money in circulation. If the volume of money and credit increases more than the volume of available goods and services, prices for those goods and services go up. A common expression for this phenomenon is "too many dollars chasing too few goods." Another way of explaining it is: if the money supply is too high, people will be willing to pay higher prices, and prices will go up.

- *High Interest Rates* - Ironically, the high interest rates used to discourage growth in the supply of money are also sometimes cited for causing inflation. An interest rate is the price

RATE OF INFLATION

Percentage of Consumer Price Index Rise from Preceding Year



for borrowing money. If interest rates are high, then it costs more to borrow money. For businesses which borrow money, high interest rates mean that they have to charge more for what they produce in order to pay for the borrowed money. For individuals who buy a house or a car on credit, high interest rates mean that they will have to find ways to pay for the cost of not only what they bought (already high because of inflation) but also for the money they borrowed to buy it.

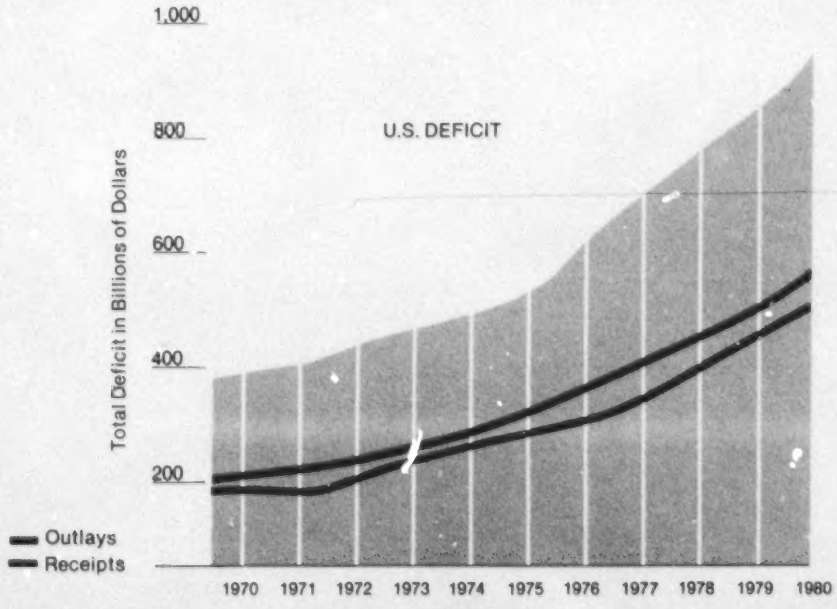
- *Energy Costs* - The rapid rise in the price of energy, particularly of imported oil, has been very inflationary. President Carter, in his 1980 State of the Union address, stated that "the biggest single factor in the inflation rate increase last year was from one cause: the skyrocketing oil prices." In 1970, a barrel of oil cost about $1.50 on the world market; in 1980 it cost $35. Since the U.S. imports 40 percent of its oil, this price increase has had an impact on our inflation rate.
- *Institutionalized Inflation* - Inflation has been with us so long that in many subtle ways it has been built into the system.
- *Wage-Price Spiral* - When prices rise, workers demand higher wages to pay these prices. When wages go up, businesses again raise their prices to cover the higher wages. The spiral continues—wages and prices pushing each other to higher levels.
- *Indexing* - In recent years, many labor contracts as well as government programs (welfare, unemployment compensation) have been indexed to the cost of living. When inflation pushes prices up 10 percent a year, indexed wages and payments automatically rise by 10 percent. Almost a quarter of the federal budget is now indexed to inflation.
- *Inflationary Expectations* - Having grown accustomed to inflation, we now expect it and act accordingly. Workers ask for wage increases and businessmen raise their prices before they actually need to. Furthermore, a public which expects inflation has little incentive to save money, since their money is worth more now than it will be later.

Possible Remedies for Inflation

It is difficult for economists to agree on suitable remedies for inflation because they often disagree on the causes of the problem. What one economist may consider a needed policy, another may consider disastrous. Below are some of the most often cited remedies:

- *Balancing the Federal Budget* - Balancing the budget is hard to do because it is difficult to control spending levels and to estimate revenue levels. But tight fiscal policy in the form of a balanced budget would reduce the nation's demand for credit by reducing government borrowing. This could help push interest rates down and make additional funds available for private investment. Critics warn that cuts in government spending could hurt the section of society dependent on government social services. Those most in need of economic assistance could be those most hurt by this kind of economic policy. Furthermore, critics argue that balancing the budget would have little effect on inflation.
- *Tightening the Supply of Money* - Tightening the money supply is a popular remedy to inflation. Tightening the money supply means reducing or slowing the growth of the amount of money in circulation. The government controls the supply of money through the Federal Reserve Board (often referred to as the "Fed"), a semi-independent board composed of seven people appointed by the president. The Federal Reserve Board has two main instruments for controlling the money supply: interest rates and credit controls. When the Fed raises interest rates, people are less likely to borrow money. This limits the amount of money in circulation and "cools down" the economy. The Fed can also tighten up on the availability of credit, making it more difficult for people to borrow money. However, these policies may exacerbate the long-term problem of declining productivity because they reduce the amount of money available to invest.
- *Reducing Consumption of Imported Oil* - If American dependence on foreign oil were reduced, the U.S. economy would be less affected by the tremendous price increases of OPEC oil. This can be achieved by accelerating U.S. oil production and developing alternative energy sources such as synfuel, solar, coal and nuclear.
- *Observing Wage and Price Controls* Wage and price controls can be either voluntary or mandatory. They are regulations limiting increases in wages and prices which are used to combat the inflationary effects of the wage-price spiral. Proponents argue that price controls are particularly needed for combating inflation in fuel and food prices. Critics claim that wage-price controls only hide the real problems and for that reason do nothing to help the economy in the long run.

The suggested remedies for inflation are many and difficult to choose from. It may be that no policies will be effective at this time or that the right policies will be politically unpopular. The challenge for policymakers is to sort through the rhetoric and the conflicting information to make the hard choices that have to be made.



What are the underlying reasons for the high rate of inflation? What policies should we pursue to solve the problem?

GAR ALPEROVITZ

We are facing a dramatically new kind of inflation in the 1970's and the 1980's. For instance, in the 1970's, world food shortages created very high prices in the United States, even though this is a surplus country. Note that this is not a monetary inflation; it is based on world food shortages. We're also seeing very high energy prices, and again, they're not based on monetary problems or on labor costs. The only way to handle the new kind of inflation, as opposed to the old, is to manage our economy so that, for instance, we don't allow short term speculation on food shortages to wash through the whole economy, creating very high prices for American consumers—which lead to high wage demands which then lead to the price-wage spiral.

We're going to have to increase world food reserves and put a buffer between short term high prices in the world and more stable prices at home if we are to stabilize this key component of the family budget: food prices. I would also favor stabilizing certain energy prices, which means maintaining controls on some prices, particularly for basic necessities like heating oil. Of course, it's also necessary to achieve conservation. For instance, the Volkswagen Rabbit gets over 40 miles to the gallon; the average car in our own national fleet gets something like 15 miles. If we regulated auto production so that we saved two-thirds on gas mileage, we wouldn't need such high prices to achieve conservation goals. In another area, housing, what used to be called the "postwar baby boom," has now become a "family boom." New families trying to buy homes are bidding up the prices. What we need to do here is expand the supply of housing. And that means making more mortgage money available, particularly for low and moderate income housing, or we'll never solve that part of the new kind of inflation.

In each case where the most important inflation pressures have come—food, energy and housing—the problems are very specific. They won't be solved by the old-fashioned solutions of tight money or created recessions. The only way to solve the new kind of inflation is with sharply tailored policies appropriate to each of the specific difficulties.

H. BREWSTER ATWATER, JR.

High rates of inflation are by no means inevitable. Persistent inflation in the United States and in other countries is primarily a function of governments pursuing policies under which they spend more than they take in and print too much money.

The most promising solutions to inflation involve changing those policies. Our government must spend only what it is willing to tax us to pay for; and, we must moderate the rate at which we print money. Other policies and proposals designed to encourage greater capital investment and economic growth should be given favorable consideration, but these are not as crucial as getting spending and money growth under firm control.

CONGRESSMAN BILL FRENZEL

The principal cause of inflation is federal over-spending. Federal deficits are not the only cause, but they launched this cycle of inflation in the "guns and butter" days of the middle 1960's, and have nurtured inflation for the past 15 years.

Once inflation is started, it quickly becomes deeply rooted, and develops a momentum of its own. Lately, inflation has been exacerbated by wage increases, cost of living agreements of all kinds, administered prices, energy price increases and food price increases.

Cutting federal spending and reducing deficits is not the only cure for inflation, but until we make cuts in federal spending, other cures won't be very effective. We can't expect the people to make sacrifices until their government is willing to cut back too. Nor can we expect monetary policy to restrain inflation alone. We must be willing to adopt a more stringent fiscal policy.

SENATOR CARL LEVIN

There is no single cause for inflation. A variety of factors have acted together to create a serious and deeply imbedded inflation in this country.

It is generally acknowledged by economists that a balanced budget will not reduce significantly the current inflation. Inflation might be reduced somewhat by a balanced budget, but in the process, tremendous social costs would be incurred.

Inflationary shocks such as OPEC price increases and crop failures contribute to inflation. Expectations that inflation will remain high encourage spending at the expense of saving. The resulting decline in savings removes important sources of money for productive investments. Finally, the wage-price spiral causes wages and prices to rise regardless of other inflationary pressures. Our complex economy includes a network of administered wages and prices which, for reasons not quite clear, respond quickly to upward pressures on wages and prices but stubbornly resist downward pressures.

A coordinated anti-inflation program is necessary to address the number of inflationary factors in our economy. This program should include restrained federal spending and tax incentives for increased savings and productive investments. And the root cause of inflation, the wage-price network, must be addressed. One possibility is a tax-based incomes policy which rewards (with lower taxes) individuals and businesses who accept either lower wage increases or lower price increases than the prevailing rate.

GUS TYLER

The major causes for inflation are clearly defined. There are four items that are highly inflationary: fuel, food, housing and health care. Those four items make up about 60 percent of the average budget of the median family. For families below the median, they make up 80, 90 or 100 percent of the budget. Furthermore, inflation for these four necessities (and they are necessities) is just about twice the rate of inflation for the non-necessities. So if we can cope with those four, we will be coping with the problem of inflation.

Obviously the way to cope with inflation in the price of fuel, aside from conservation which has to be done

immediately, is to develop alternate sources of energy through the 1980's, so that as we approach the 1990's we will have an adequate supply of fuel and we will not be forever dependent upon a limited source of petroleum. Secondly, in the case of food price inflation, there's no shortage of agricultural potential in the United States. What has happened is that for about 40 years now, government policy has been to restrict production of food rather than to expand it. If we were to unleash our productive capacity, food prices could be stabilized, or even brought down. Thirdly, when it comes to housing, the two inflationary items in housing are 1) very high interest rates (the cost of financing homes); and 2) the value of real estate, which has gone up three or four times faster than any other item. The way to cope with high interest rates is obviously to bring the interest rates down through actions of the Federal Reserve system. And as far as bringing land values down, that can happen if there is a redistribution of population in the United States. My guess is that if we applied ourselves intensively to developing alternate sources of energy like solar, wind, geothermal and biomass, new plants and facilities would develop in other parts of the country that are not so densely populated and as a consequence, the cost of the land would come down.

Finally, in health care, we need two things in addition to national health insurance. We have to have a more rational system of health delivery to eliminate unnecessary overhead costs and duplication, and we have to launch a program in the United States to add a whole new dimension to health care in which we don't just concentrate on illness, but also concentrate on wellness. We shouldn't just give a pill to the sick, we should also give advice to the well on how to stay well.

If we address all four of these items, we should ultimately be in a position to cope with inflation while at the same time maintaining full employment in the United States.

Productivity: America's Industrial Crisis

In the final analysis, the wealth of America depends on what we produce. The total of all the goods and services that we produce is called the Gross National Product (GNP). It is therefore very disturbing that for the first time since the Depression, the GNP has virtually stopped growing. In part, this is a reflection of current economic conditions — the GNP always grows slowly in times of slower economic activity. However, the current slow growth of the GNP is also a reflection of a long-term trend.

Many economists blame this trend on a decline in productivity. Productivity is the measure of how much the average American worker produces. Newer, more efficient machinery and technological advances have always enabled American workers to produce more for the same amount of work. But in recent years those advances have come fewer and farther in between. As a result, the rate of growth in productivity is only half the level of two decades ago.

This decline in the rate of growth has reduced the ability of the U.S. economy to generate new wealth. It has also made it increasingly difficult for American industry to compete with more efficient foreign companies. In 1970, foreign companies supplied 15 percent of the automobiles in the U.S. domestic market. Today 30 percent of the automobiles bought in America are produced abroad. The American automobile industry has been forced to lay off thousands of workers because demand for its products has fallen so much. Other industries such as steel, textiles and electronics have also found it difficult to compete with foreign producers.

Reasons for the Declining Growth

The main reason for the decline in the rate of growth in productivity is that American industry is not investing enough resources into technologies and more efficient machinery.

There are several reasons for this. First, Americans save less of what they earn than virtually any other people in the world. This is partly because the tax system and inflation discourage saving, and partly because America is a consumer-oriented society. But whatever the reasons, the low rate of savings means that there is less money available to invest.

Second, business and industry cite government health and safety regulations as obstacles to increased productivity because they require money intended for new production equipment to be used instead to meet health and safety standards. Economists disagree sharply on the magnitude of this effect.

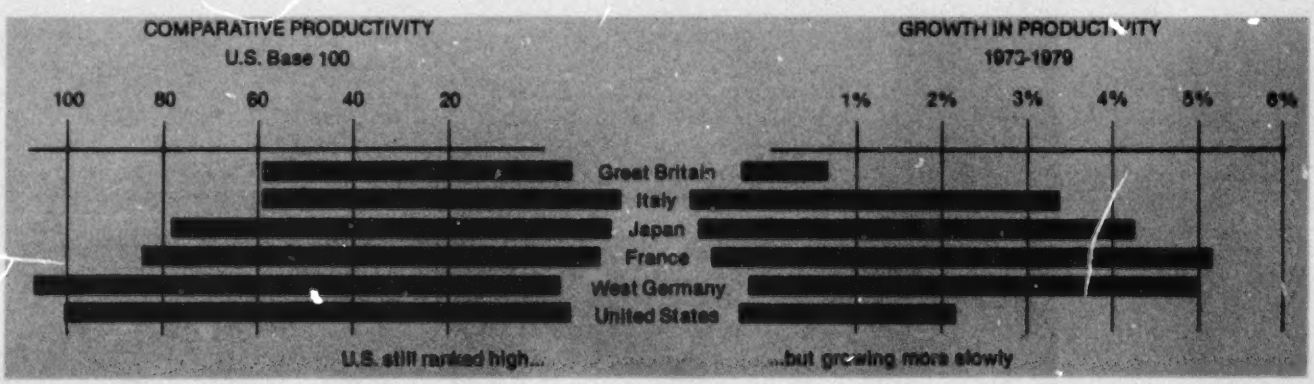
Third, support for the basic research which often results in major technological and productivity-related breakthroughs has declined. Money spent on basic research may not yield results for many years. In times of uncertainty, it is difficult for many businessmen to justify such long-term investments.

A fourth reason for reduced levels of business investment has to do with the structure of large corporations in America. An American corporation is owned by many stockholders, most of whom are investors, interested only in short-term profits. This form of corporate financing (as opposed to bank loans) forces corporations to continue to pay dividends to its stockholders rather than re-invested in the corporation for improving productivity. In addition, corporate managers, unlike the owners of private companies, have a stake in showing immediate profits and "beating last year's record." They may be unwilling to make sacrifices in order to plan for the future.

Possible Remedies for Sluggish Productivity

Economists disagree on the possible remedies for improving the sluggish rate of growth in productivity. One proposed remedy is to cut taxes to encourage savings and investment. Many economists feel that the present high rate of taxation discourages both. However, some economists fear that cutting taxes would increase the inflation rate.

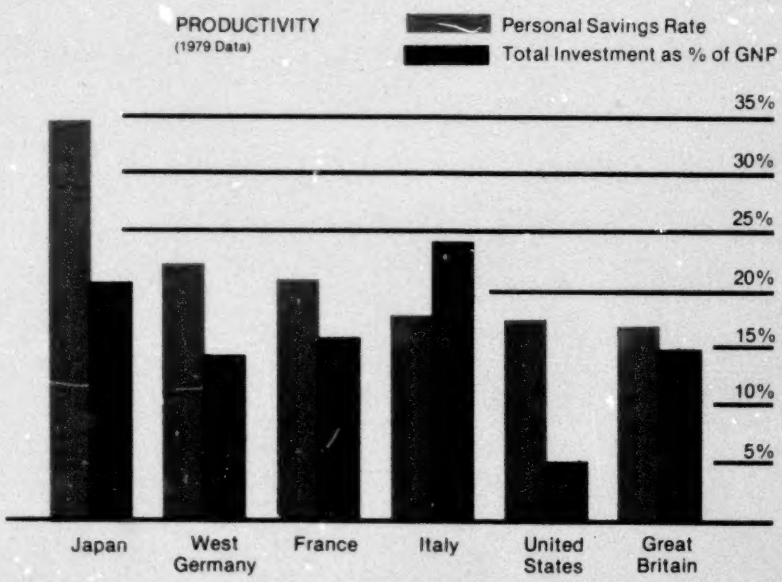
A second proposed remedy is to reduce the number of government regulations with which businesses must now comply. Proponents argue that cutting government regulations would allow businesses to invest more money into increasing their productive capacity. Critics of this proposal argue that the cost to society of cutting government regulations would be greater than the benefits. For example, regulations such as the Clean Air Act, which requires industry to control the amount of pollutants they emit into the atmosphere, may save more money by reducing health care required to treat the effect of pollutants than it cost industry to comply with the regulations.



A third proposed remedy is to lower interest rates and loosen credit controls in order to encourage higher levels of investment. However, this course of action runs the risk of increasing the inflation rate.

Two other government policies designed to improve America's industrial performance are linked to, but do not directly effect, the rate of productivity. The first of these is government intervention in the marketplace to help ailing industries. In the case of the Chrysler Corporation, the federal government guaranteed a loan of $3.5 billion designed to prevent Chrysler from going bankrupt. Those in favor of the loan guarantee felt it would prevent thousands of workers from becoming unemployed; those opposed charged that government involvement of this kind violates the principles of free enterprise and encourages inefficient business practices. Another government policy option is to impose tariffs or import quotas, thereby protecting American industry from foreign competition. The American steel and auto industries have argued for protection of this kind. Opponents of tariffs and quotas argue that if the U.S. applies them to imports, other countries will retaliate by applying them to our exports.

All of these proposed remedies have their drawbacks, yet some or all of them may have to be applied if the U.S. economy is to regain its forward momentum. The challenge for policymakers is to find the balance of policies which will revitalize the economy and head it in the direction we want it to go.



Why is the rate of growth in productivity so low today? What policies should we pursue to encourage higher productivity?

GAR ALPEROVITZ

The most important reason we are seeing a falloff in the growth of productivity is that there is no reason for the average businessman to have confidence that the economy will grow sufficiently in the future to warrant investing massively in new equipment. What I mean is this: because of our failure to deal with inflation and because of our old-fashioned methods of creating a recession on the theory that this will control inflation, we have had a stop-go, up-down, recession-inflation economy for well over a decade.

The only way a businessman can possibly invest in new automated equipment, high productivity equipment — "cybernation" or "robotics" — the only way he can make those long-term investment decisions is if he has confidence in future economic growth.But that requires that we plan our economy for high growth. The Japanese have been having growth rates in productivity in manufacturing in the 8 to 10 percent range. Our growth rate has been negative in the last year. The reason they do so well is that they produce a coherent overall economic strategy and plan that people can count on when they make investment decisions. Instead of stop-start, up-down economic policies based on old-fashioned ideas, they plan for growth that allows businessmen to invest in new equipment for steel, new equipment for the auto industry, and the most advanced equipment in various other branches of industry. Only with that kind of commitment and that kind of planning for economic growth — the kind that you can actually count on — will we resume our growth in productivity.

There's a great deal of talk today about giving businessmen tax credits to spur investment in new equipment. But a tax credit doesn't mean much. The big question if you're a businessman is "Can I have confidence in the future?" If so, you're going to run there to be ahead of the competitor. If not, you can have an awfully big tax credit and you are not going to invest because you don't want to be sitting around with an empty factory. The real key is whether our economic policy gives us confidence in the future. That means planning to ensure that we can do what many other countries are doing — ensure a high growth rate over time that you can count on enough to invest in new equipment.

H. BREWSTER ATWATER, JR.

Inflation has resulted in a major increase in uncertainty and a shortening of horizons. Most private economic decisions which increase productivity—capital investment, research and development spending and saving—involve a long-term pay off. A climate of economic uncertainty involving high inflation does not

favor these kinds of decisions. Therefore, the most significant step in achieving productivity gains comes right back to controlling inflation.

It is also true that our present tax structure penalizes investment and savings and should be changed. And it is regrettable to see the extent to which R and D spending has been forced to shift into activities aimed at achieving compliance with new government regulations.

CONGRESSMAN BILL FRENZEL

The decline of American productivity is the result of a complex combination of many factors. The most obvious factor is insufficient savings and investment in our economy. Another is excessive government regulation. A third is that our government favors limping, non-competitive companies with loans, subsidies and protectionism, instead of providing incentives for the growing, highly competitive companies which will furnish the jobs of tomorrow.

The quickest, most effective spur to productivity would be a tax law that gives incentives to save and invest. We need accelerated depreciation allowances, more incentives for personal savings, decreased capital gains taxes, research and development tax credits and other capital formation proposals.

SENATOR CARL LEVIN

Productivity improvements are the key to a vigorous economy. Rising productivity allows us to produce more with less and thus reduce inflation even in the face of limited resources. Productivity declines result from a variety of factors. Two major problems are regulatory burdens, which add to the cost of production, and insufficient savings and investments, which hinder productivity improvements.

In regard to the burden of regulation, the challenge for government is to weigh the social benefits and economic costs of regulations. In regard to insufficient savings and investments, the tax code can be used to encourage higher levels. Accelerated depreciation allowances will assist businesses to invest in new and efficient property.

Other policies will also help spur productivity. Greater incentives for research and development will help promote technological advances which provide less costly and more efficient methods of production. Agressive marketing of U.S. goods overseas will stimulate domestic production and help improve productivity. Worker incentives will also improve productivity. Employee Stock Ownership Plans (ESOP) offer workers a stake in a business through the direct or indirect purchase of company stock. ESOPs have been impressive in improving productivity and should be encouraged.

GUS TYLER

Most of the talk about productivity is pure mythology. First, the U.S. has the highest productivity and has the greatest output per person of any country in the world. If we were at 100, Canada would be next in the 80s, followed by France.

Second, the downturn in the growth rate is universal. It is happenng throughout the world. The reason our growth rate appears smaller is that we began with a larger base. For instance, when we were 100, Japan was 25 percent of our productivity. We then went up by 3 percent per year. Japan may have been going up by 9 percent, but it was not growing as fast as we were. Growth rates as a percentage of the base are totally misleading.

Third, areas where you have your greatest growth in productivity are in manufacture. At the present time, the U.S. is primarily a service economy — 60 percent of the labor force is in service industries. In service industries, you do not have any rapid growth rates of productivity because of the whole nature of the service economy. Because our economy is becoming increasingly a service economy, our growth rate is not high. If you took manufacturing alone, our growth rate of productivity would be higher.

Fourth, productivity is directly related to recessions. There have been only three periods between 1927 and the present in which we have had negative growth rates. One was in the 1930's when we had a depression; another was in 1946, the first major recession after the Second World War; and the other was in 1974-75, the largest recession we have had. During the 1970's, our entire policy was to restrict growth on the false hope that this would somehow check inflation. That policy reduced productivity. If we pursue a policy of full employment and full growth in the U.S., productivity will go up.

Finally, to increase productivity, people must have the funds to invest in research and development of innovative new methods of production. The policy of high interest rates that has been followed since the 1970's discourages investment and innovation because high interest rates make it difficult to obtain funds to invest.

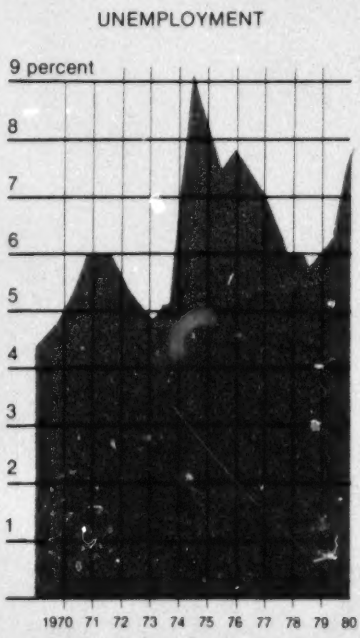
Unemployment in America: Causes and Effects

Because it directly affects only a percentage of the working force, the problem of high unemployment is often less visible than the problems of high inflation and industrial decline. Unless you are unemployed yourself, unemployment only touches you indirectly. For this reason, unemployment is usually discussed in terms of the unemployment rate, the percentage of able-bodied Americans who cannot find work. Some percentage of unemployment is usually looked upon as a given, but when it reaches 7 or 8 percent, the levels we have recently been experiencing, unemployment becomes more troublesome.

Total unemployment can be broken into a number of categories. One simple way to divide unemployment is into structural unemployment and cyclical unemployment. Some other categories used when talking about unemployment are frictional unemployment, area unemployment and sectoral unemployment — all included here in structural unemployment.

Structural Unemployment

Structual unemployment is the level of unemployment which will persist even when the economy is operating at full capacity. It is called "structural" because it is built into the structure of the economy. The rate of structural unemployment is also sometimes referred to as the underlying rate of unemployment.



One kind of structural unemployment is frictional unemployment. Frictional unemployment results from the constant movement of people from one job to another. Because there are always people in transition, the unemployment rate can never be zero percent. Economists agree that the level of frictional unemployment is relatively stable; however they disagree on how high that level is.

A more serious kind of structural unemployment is unemployment caused by the incompatibility of workers' job skills and available jobs. The people most affected by this kind of unemployment are unskilled and inexperienced workers because there are fewer jobs for them in the U.S. economy. As a result, certain socio-economic groups are harder hit. Blacks are more likely to be unemployed than whites, females more likely than males, young people more likely than adults. The problem is particularly acute among black teenagers. Some estimates are that unemployment may be as high as 50 percent for black teenagers in certain areas.

A third kind of structural unemployment is caused by the decline of certain industries. Many workers in textiles, electronics and other fields have lost their jobs because those industries have been on the decline in America.

These types of structural unemployment together form an underlying rate of unemployment. In the last twenty years there has been a rise in the underlying unemployment rate. Until recently, 4 percent was considered the underlying rate of unemployment in the American economy. However, there is now evidence that the level may be considerably higher. The government now uses 4.9 percent as its figure; many economists use 5.5 or 6 percent.

Several reasons have been cited as the cause for the increased level of structural unemployment in the American economy. One is the influx of large numbers of women and youth into the marketplace at a time when the economy has been growing less rapidly than it did in previous years. The number of jobs has not kept pace with the number of potential workers. Another reason cited by some economists is the minimum wage. They claim that by requiring businesses to pay even the most unskilled workers a minimum wage, government legislation has reduced the incentive to hire those people. A third reason cited by some economists is the level of welfare and unemployment benefits now paid by the government. These economists claim that the current levels provide little incentive for recipients to look for work.

Cyclical Unemployment

The kind of unemployment most often in the news today is cyclical unemployment—sometimes also referred to as recessionary unemployment. Auto workers out of work in Detroit and steelworkers out of work in Pittsburgh are part of cyclical unemployment. They are out of work at least partly because the economy is in a cycle of slower activity, a recession. During a recession, demand for the products of industry and business drops. Businesses need fewer workers to meet the demand and workers are laid off. The jump from 6 percent to 8 percent unemployment in the first half of 1980 was largely a reflection of the current slowdown.

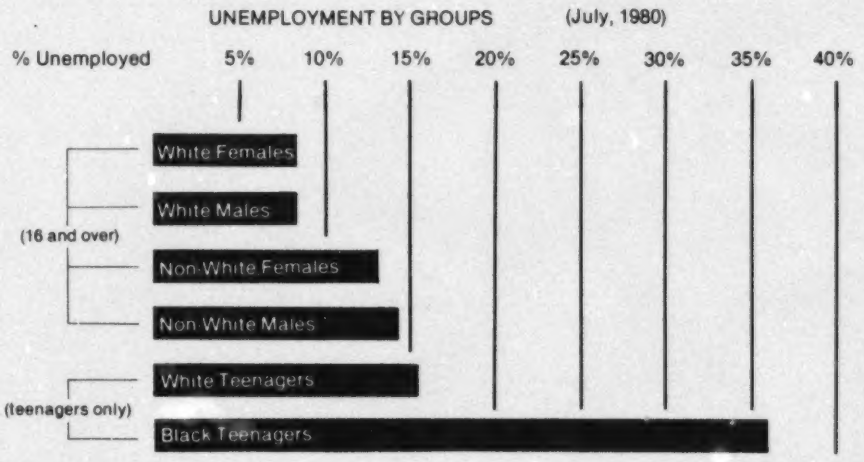
A recession is, in part, a natural phenomenon. Left to itself, business tends to follow a cyclical pattern in which periods of rapid and slow activity alternate. These cycles could get out of hand and be dangerous. Government policy tries to smooth out the cycles, but this too can be risky. By stimulating the economy when it is lagging, the government risks fueling inflation. By restraining the economy when it is growing too fast, the government risks causing a severe recession. (If severe enough it is called a depression.) Many economists blame government actions intended to slow the rate of inflation, particularly high interest rates, for the severity of the current

recession and thus the high level of unemployment.

Possible Remedies for Unemployment

Two basic types of government policy are used to combat unemployment. The first is monetary policy which attempts to stimulate the economy into performing at full capacity. This policy is targeted at cyclical unemployment. The second is government policy intended to change the structure of the economy to alleviate structural unemployment. This policy is often aimed at the structure of the labor market, usually by providing job training to unskilled workers. Programs such as CETA (the Comprehensive Employment and Training Act) provide training to the traditionally unskilled in an attempt to alleviate structural unemployment.

Combating unemployment usually involves some costs either in terms of money for job training programs such as CETA or in terms of increased inflation rates which result from policies designed to stimulate the economy. As a result, rather than attempt to eliminate unemployment, government policy aims to reduce unemployment to an "acceptable level." The current government definition, embodied in the Humphrey-Hawkins Full Employment Act, defines 4 percent as an acceptable level.



Defining what level is acceptable can be a very difficult task. In part, it depends upon what one perceives the level of structural unemployment to be. If one believes that 4 percent is the underlying rate of unemployment, then 4 percent would seem to be an acceptable level. If one believes that the underlying rate of unemployment is now 6 percent, then 4 percent may seem to be an impossible figure to reach without incurring enormous costs.

However, in considering the costs of policies aimed at reducing the level of unemployment, the costs of unemployment must be considered. High unemployment is a drain on society, not only because the government must pay out more money in unemployment benefits, food stamps, etc., but also because society does not have the benefit of all the work that could be done if more people were employed. Furthermore, unemployment has hidden costs in the form of low morale and high frustration levels. This often translates into increased levels of crime. Balancing these costs and making a policy decision is a very difficult task.

Why do we have such a high rate of unemployment today? What policies should we pursue to lower it?

GAR ALPEROVITZ

We have a high rate of unemployment because we have been managing our economy so as to create unemployment. We have been operating on the old-fashioned theory that running a slow economy will reduce inflation. The problem is that the new kind of inflation — think of energy prices and food prices — does not yield to a planned slowdown like the current recession. We simply get unemployment and more recession.

If we want to get out of this bind, we're going to have to have a strong measure of direct control over inflation. In most of the first two decades of the post-war period, other industrialized countries of the world were running unemployment rates in the area of 2 percent. Ours was in the 4 to 5 percent range. The Japanese and Austrians have been running 2 to 3 percent unemployment. We are now in the 7 to 8 percent range. The examples of other countries show that if we want to plan our economy for full employment, for jobs for everyone and for a great deal more output, we can do it. But it requires us to abandon the old-fashioned idea that a recession somehow significantly helps solve inflation. If we do that, then we can begin to build housing, railroads, mass transit vehicles and solar equipment, and begin to rebuild our highways, hospitals and schools. All of these things would put people to work on things which need to be done. They could be part of a package of planned job creation for full employment, consistent with a set of proposals to control inflation in the key sectors by direct measures.

H. BREWSTER ATWATER, JR.

Many unemployed people have voluntarily withdrawn from the labor force to seek another job. Still others are only unemployed for a short period of time and are well cushioned by various government programs. This means that our focus should be on the long-term, involuntarily unemployed. It is appropriate for government to provide various programs for such individuals to improve their education and skills to the point of job readiness, and to assist them in finding good jobs.

In general, though, the best prescription for unemployment is a healthy, growing economy. There is very little evidence that government programs and actions which are focused narrowly on changing the *rate* of unemployment have been successful. The national unemployment rate is only a crude indication of labor market conditions. Government policies should focus on the specific demonstrated needs of the long-term unemployed—not the aggregate unemployment rate.

CONGRESSMAN BILL FRENZEL

Our unemployment problem is the result of a combination of forces. We have recessionary unemployment, structural unemployment, sectoral unemployment and area unemployment.

To return recession-unemployed people to work requires a healthy and growing economy. Tax incentives are needed to spur our economy and to stimulate capital formation for creation of new jobs.

To combat structural unemployment, we need better training programs to provide skills to the unskilled, relocation programs, and tax incentives for employers to create jobs in areas such as our eastern cities, where few job opportunities exist. It would also help if we did not have an unrealistic minimum wage which denies unskilled workers the entry level jobs they need.

At present, one of our great concerns is the unemployment in the automobile industry. Some companies blame imports, but many people blame the companies themselves, who have not produced energy efficient cars, or their employees, who have not cared much about product quality and whose wages are clearly out of line with domestic and world salary levels.

Four percent unemployment is often cited as an acceptable level of unemployment. As long as any person wants to work and can't, any amount of unemployment is a cause for concern. But in a mobile society in which people easily move in and out of their job market, 5 to 6 percent is a reasonable target. The current rate of 8 percent is far too high.

SENATOR CARL LEVIN

Unemployment arises for a variety of reasons. Foreign competition may displace domestic manufacturing. Management decisions may fail to anticipate changing markets and consumer buying habits. Technological advances in one field may make an industrial process obsolete and uncompetitive.

Unemployment is a complex problem because there are so many kinds. A certain amount of unemployment exists because people change from one job to another. Structual unemployment exists because there are people who lack necessary job skills. And regional unemployment prevails in areas hard hit by dwindling industrial bases and plant closings.

The federal response should be sensitive to the different kinds of unemployment. Public works programs are useful to keep people working during recessions, but they should be structured to teach lasting job skills for the private sector. Job retraining programs are useful where regional unemployment exists. And tax changes which encourage export promotion and economic expansion in the private sector will help lower unemployment as well.

GUS TYLER

The high rate of unemployment was manufactured in Washington, D.C. It was started when President Nixon decided that the way to cope with inflation was to cool the economy. The phrase "cool the economy" means to slow down the wheels of commerce and industry. In plain language, it means to manufacture unemployment. Nixon manufactured unemployment on the theory that if unemployment went up, prices would stabilize. That policy was continued by Ford, and curiously enough, also continued by Carter. So through the 1970's, unemployment was manufactured by restricting the money supply, primarily through high interest rates.

There's absolutely no reason why there should be any unemployment in the U.S. at the present time. There's plenty of work to be done. If we turned to alternate forms of energy production, we would need labor to put up the plant facilities and then to maintain them. If we expanded our food supply, if we began to expand our housing stock which we need very, very badly, there would be absolutely no unemployment in this country at all. Unemployment was artificially created in Washington, D.C., because they were living with a wild theory that unemployment would cure inflation. Actually, unemployment and high interest rates have caused inflation.

Global Economy: Realities of Interdependence

An average American may watch a television set made in Japan, wear shoes made in Brazil and drive a car assembled in Italy from parts made in Germany, Argentina and the United States. Meanwhile, U.S. products and food find their way to virtually every country in the world. Today, the economies of the world's nations have become so interconnected that in reality they are all part of a global economy.

Industrialized Countries

Since World War II, the industrialized countries of Europe and North America, as well as Japan, have become increasingly interdependent. Trade with these countries accounts for 60 percent of U.S. exports and 51 percent of U.S. imports. The finances of these countries are so intertwined that the domestic economy of each nation impacts upon the economies of other nations. A recession in America lowers the demand for cars made in Germany and Japan and may trigger their economies into recession.

The penetration of some imported commodities such as foreign made steel, automobiles, textiles and appliances into the U.S. domestic market has been of great concern to American producers. Today 30 percent of the automobiles and 15.8 percent of the steel bought by consumers in America are produced abroad. As a result, some have called for protective quotas or tariffs (taxes on imported goods) which would make these foreign products less competitive in America. However, quotas and tariffs have been opposed by those who fear retaliation by the nations with whom America trades. If the U.S. were to place a quota or tariff on Japanese cars, Japan might do the same to U.S. exports entering Japan.

The Oil Exporters

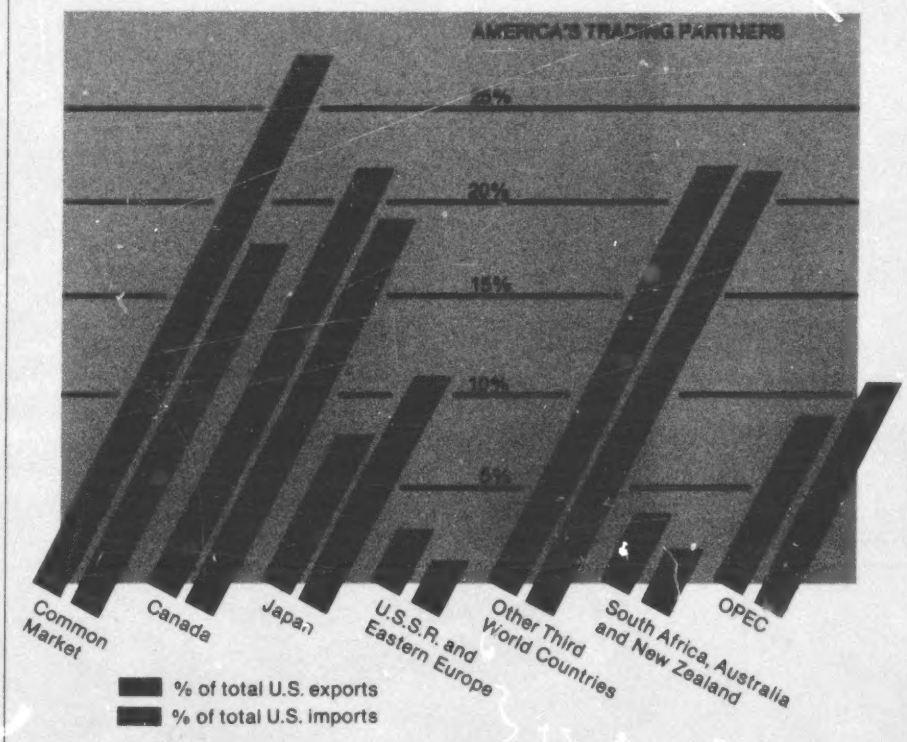
Few things have brought the reality of interdependence more forceably to mind than the energy crisis. Today, not only are the industrialized nations heavily dependent upon each other, but they are also increasingly dependent upon oil imported from developing nations. This trend went largely unnoticed until 1973, when the oil producing nations, most of whom belong to the Organization of Petroleum Exporting Countries (OPEC), raised their prices to alarming levels. This oil price increase caused a transformation of the world economic and political alignment. Wealth is shifting from industrialized nations to those developing nations which are oil producers. In 1973, the assets of the OPEC nations totalled $7 billion. By 1980, their assets had grown to $343 billion.

Developing Countries

While oil resources have propelled some developing countries into the mainstream of the world economy, the lack of oil resources has left other developing countries far behind. These non-oil producing nations, with their comparatively small national wealths, find it increasingly difficult to pay the rising oil costs. For example, it is much more difficult for India's economy to afford 100 barrels of oil than it is for the U.S. economy.

Most developing countries survive because they provide raw materials to the industrial nations. Jamaica produces large amounts of bauxite, the material from which aluminum is made. Zambia and Zaire produce large amounts of copper. Zimbabwe and South Africa produce large amounts of chromium.These minerals, like oil, are both important to the industrial world and scarce—the U.S. imports over 90 percent of its bauxite and virtually all of its chromium, Western Europe and Japan import over 90 percent of their copper. However, the countries which produce them, unlike the producers of oil, have been unable to form effective cartels to capitalize on their important natural resources.

Much of the money that developing nations make goes to pay off loans made to them by the World Bank and the International Monetary Fund. Loans from these institutions go to developing nations for development projects and help these countries with their balance of payment problems. In recent years, partly because of the burden of high energy costs, the debt level of developing countries has risen tremendously. By the end of

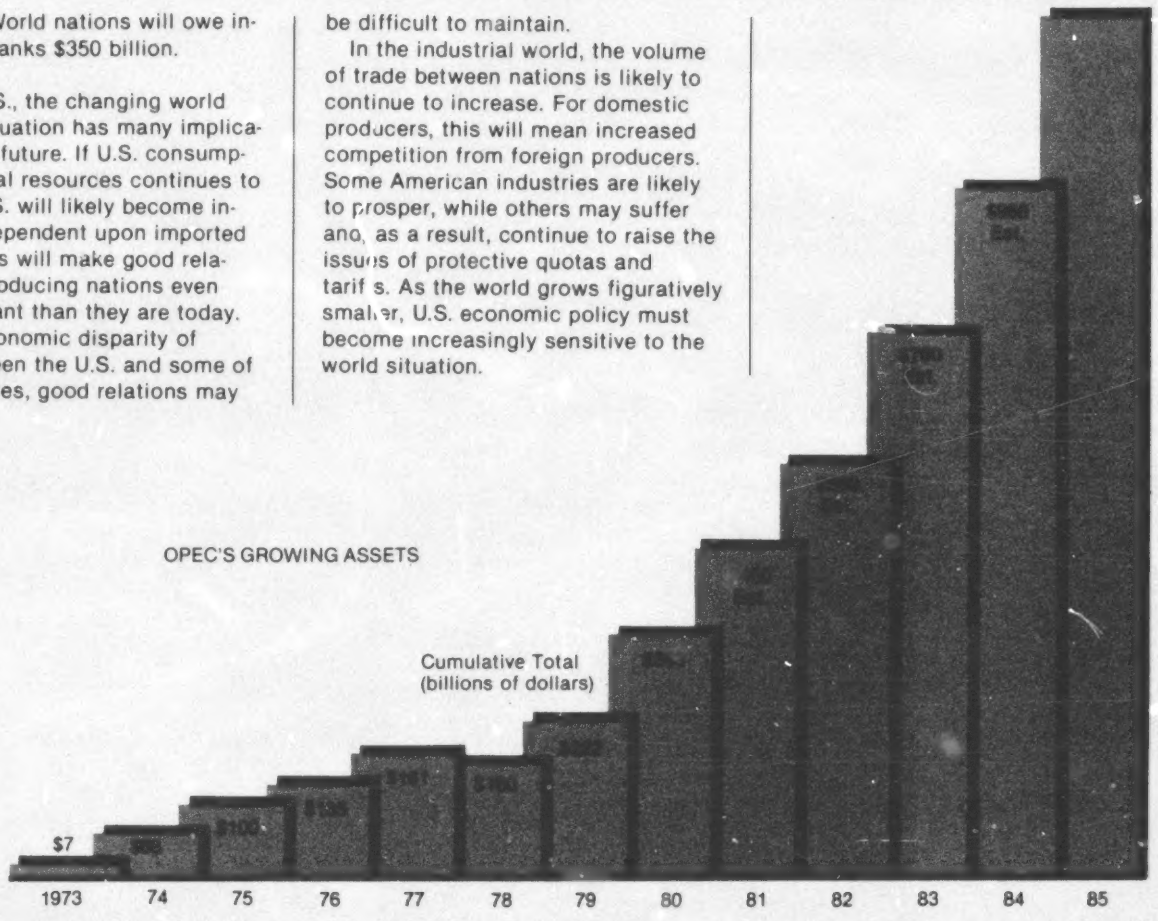


1980, Third World nations will owe international banks $350 billion.

The Future

For the U.S., the changing world economic situation has many implications for the future. If U.S. consumption of natural resources continues to grow, the U.S. will likely become increasingly dependent upon imported supplies. This will make good relations with producing nations even more important than they are today. Given the economic disparity of wealth between the U.S. and some of these countries, good relations may be difficult to maintain.

In the industrial world, the volume of trade between nations is likely to continue to increase. For domestic producers, this will mean increased competition from foreign producers. Some American industries are likely to prosper, while others may suffer and, as a result, continue to raise the issues of protective quotas and tariffs. As the world grows figuratively smaller, U.S. economic policy must become increasingly sensitive to the world situation.



What does the increasing interdependence of all nations mean for the United States?

GAR ALPEROVITZ

One of the most important things to notice is that every other advanced country is now moving towards more coherent public and private planning. The Japanese auto industry and the Japanese steel industry have been beating us to the punch, time and time again, because they are part of a coordinated public-private plan to encourage high productivity and high growth. Unless we develop a more coherent sense of direction and planning which uses our capital and other resources in the most efficient way, we're going to find ourselves going backward as other countries go forward.

We are also going to see more protectionism, whether we like it or not. That's what's happening around the world. And it's happening because of our failure to produce the high growth economy that would give more jobs. As long as we have recession and slow growth, any family, any community, any industry that is threatened by imports will inevitably scream out for help and protection. The only realistic option is to run a high-performance economy, so that people who lose jobs in an import industry have other decent jobs to go to.

In regard to Third World countries, we ought to take a more responsible position by improving our purchases from those countries. The most important thing, in my view, is trade—not aid. But that means we've got to get our own house together and run a growth economy or we won't be buying much from abroad. I also think we can help by giving long-term loans, preferable through multinational institutions like the World Bank, to allow them to develop more rapidly. This in turn will help our exports.

H. BREWSTER ATWATER, JR.

Capital will generally go where it gets treated best. One result has been a lot of transnational investment. U.S. companies compete in foreign markets, as do foreign companies in our markets. Public policies supporting free movement of goods and capital are ultimately beneficial for U.S. consumers and workers despite specific instances where problems occur. Competitive, efficient American industries will grow and prosper, generating more jobs and wealth for America, and our consumers will be able to buy products that are competitively priced.

CONGRESSMAN BILL FRENZEL

A recent phenomenon in the world economy is the growing interdependence of all national economies—industrial nations and less developed nations. A few countries like the U.S. have sufficient natural and technological resources to survive alone. But even the U.S. needs large energy and metals imports to maintain its security and standard of living, and its consumers demand other foreign goods, like cars and electronics, when they are better in price and quality than goods domestic manufacturers can produce.

Oil producing nations are extracting high prices for their energy in an energy-scarce world. The less developed nations, the Third World, are demanding a greater share of the world's economic pie. The industrialized world, plagued by energy-related trade deficits, is struggling to maintain and improve its standard of living. Today we have an environment in which there is both danger and opportunity. The danger is that large differences in wealth, resources or living standards are explosive. The opportunity is that major trading periods in the world's history have caused the condition of all people in all countries to improve. Interdependence is not as comfortable as self-sufficiency, but with careful management and some accomodation, it can lead to better times for all people.

SENATOR CARL LEVIN

The industrial countries have a stake in improving the lot of all countries. The exchange of products and resources should improve the standard of living for all countries. While the U.S. enjoys a high standard of living and a certain degree of self-sufficiency, we are still dependent on foreign products and resources. Third World countries also offer new markets for domestically produced goods.

Domestic economies are often rewarded by the presence of lower priced foreign goods. But the reverse can be equally true. Domestic economies can suffer extreme turmoil if foreign products are unfairly subsidized and thus able to undersell domestic products. The social repercussions can be devastating to workers and their families.

However, while some industries need temporary protection, excessive protection will cause more harm than good in the long run. Consumers will be denied the variety and quality of imported goods. Rather than erect prolonged trade barriers, repercussions of which can extend beyond trade relations, the federal response should be directed at assisting domestic industries to become competitive again. Such a response could include temporary import restraints which allow industries the time to modernize plants and equipment.

GUS TYLER

The term 'interdependence' is misleading when applied to the Third World nations. Since the end of the Second World War, the Third World countries have become more dependent than they have ever been in all of their history. They have become more dependent on the West because they have been living with a false hope that rapid industrialization would enable them to be wealthy and to stand on their own feet. What has happened as a consequence of that policy is that they are dependent on the West for markets, they are dependent on the West for capital, and they are dependent on the West for food. I don't know how you can become more dependent. There is absolutely no independence and therefore no true interdependence.

However, they do have a capacity for independence. The capacity for independence is their own soil. Their people are 80 to 85 percent rural, yet they have neglected agriculture. In the past, these Third World countries were exporters of grain. Now they are importers of grain. That has made them even more dependent on the West. If they were now to turn around their policies and develop their own facilities, their own resources, if they were to work their own land, they would move in a direction of greater independence. Once they have greater independence, then we could have true interdependence and not the present circumstance which is really only dependence.

In regard to the issue of imports, the auto industry, curiously enough, is not at all a good example of the problem. The basic problem appears in light manufacturing—in apparel, textiles, shoes and electronic assembly—which employs about 10 million workers in this country. The U.S. is an island of free trade in a protectionist world. The result is that several million jobs have been lost in the U.S. in light manufacture.

Free Enterprise: What Role for the 80's?

Free enterprise in its purest form means allowing business to operate without government interference or regulation. In a pure free enterprise system, the government would provide only basic necessities such as national defense which cannot be supplied by private enterprise. Under such a system the forces of supply (the amount of goods and services which will be produced at a given price level) and demand (the amount of goods and services which will be purchased at a given price level) determine what is produced and how it is allocated.

Although the American economy is based on the concept of free enterprise, in reality government and private business are greatly entwined. Over the past 50 years, the American economy has moved from a relatively free enterprise economy to what is called a mixed economy. Rather than a system in which decisions are made purely by the interaction of supply and demand, a mixed economy is a system in which government makes some of the decisions.

One measure of government involvement in an economy is the amount of government spending relative to the total amount of economic activity. In the United States, total federal, state and local government spending has grown from 10 percent of the gross national product (GNP) in 1929 to 32.5 percent of the GNP in 1980. Over the same years, federal government spending has grown from 2.4 to 18.8 percent of the GNP.

While this percentage may seem high, it is not all that high compared to the percent of GNP that the government takes in other industrialized countries. By this measure only Japan has a freer 'free enterprise' economy. In West Germany, Great Britain, France and other European countries, the government share of the GNP is higher than it is in the United States.

Government Regulations

In the United States today, the federal government is involved in many areas of the economy through laws and regulations which affect the activities of industry. Many assume that industry opposes all regulation and that they are in direct conflict with the more than 50 regulatory agencies which regulate them. However, more realistically, industry favors some regulations while opposing others. When regulation of the airline, trucking and railroad industries was eliminated through legislation, those industries opposed the deregulation.

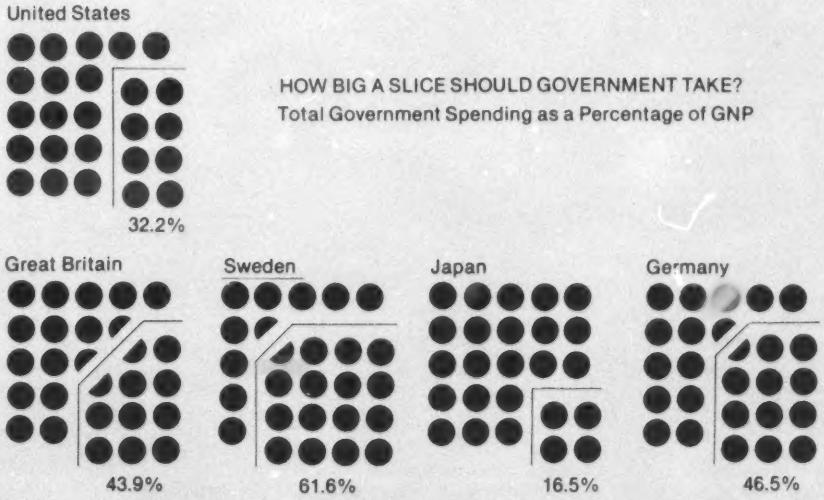
The basic debate over regulation is not on whether there should or should not be regulation, but on what kind of regulation, and how much at what cost to whom. For regulations which cost industry, the debate often hinges on whether a certain regulation can be instituted in a cost-effective manner. Is the benefit to society worth the cost to industry? In 1980, according to some estimates, business spent over $100 billion to comply with government regulations. Ninety percent of that total was spent to comply with regulations made by the Environmental Protection Agency (EPA), the Occupational Safety and Health Administration (OSHA), and the Consumer Product Safety Commission (CPSC).

Most of the immediate cost of this regulation ($100 billion) is passed directly to consumers in the form of higher prices. However, businesses argue that they also absorb some of the cost because they are forced to spend money that would have gone towards improving their productive capacity on pollution control equipment, worker safety improvements, and other items necessitated by government regulations. Proponents of regulations argue, however, that clean air, reduced death and injury in the workplace, safer consumer products and a more equal society have a value greater than the cost of the regulations which promote these objectives. Furthermore, they argue that at least some of the money 'lost' as a result of the regulations is recycled to the companies which make pollution control equipment, safety equipment and so forth.

Protection and Loans

While some industries berate government for its involvement in enterprise, other industries specifically ask for government assistance. In particular, ailing basic industries such as automobile and steel have sought government intervention. Their requests have taken two forms: protection from foreign competition and loan guarantees to enable them to obtain loans they need to survive.

To protect them from foreign competition the American steel and automobile industries have demanded government protection from foreign competition in the form of tariffs and/or quotas on imported goods. Higher tariffs (taxes on imported goods) would make imported goods more expensive and therefore less at-



HOW BIG A SLICE SHOULD GOVERNMENT TAKE?
Total Government Spending as a Percentage of GNP

tractive to the American consumer. Lower quotas would obviously have ther effect of reducing the flow of goods into the country. However, if the U.S. were to impose either, it would run the risk of provoking retaliation by the nations with whom it trades.

Several corporations have asked for a more unusual form of government assistance — federal loan guarantees. Most notable among these have been Lockheed, one of the largest aircraft manufacturers in America, and the Chrysler Corporation, the nation's third largest automobile manufacturer. In the case of Chrysler—the more recent case—the combination of foreign competition, inefficiency in production, and poor management pushed it to the brink of bankruptcy. After much heated debate, Congress approved guarantees of $3.5 billion. Supporters of the loan guarantees claim that thousands of workers would have lost their jobs without them. Opponents charge that loan guarantees violate the principles of free enterprise and encourage inefficient business practices.

The proper role for government in the economy is difficult to determine. The complexity of the modern economy seems to demand that government involve itself in some areas, but too much government involvement and too little free enterprise may only add to the problem. The challenge for policymakers in the 1980's is to find a balance that will work.

What is the proper balance between government involvement and free enterprise in our economy?

GAR ALPEROVITZ

There's a good deal of rhetoric about the so-called free enterprise system. I don't know anybody who believes we're going to turn the clock back to the 19th century of totally free enterprise. The government is becoming more and more involved in the economy, for better or worse. Even President-elect Reagan, who campaigned on free enterprise slogans, ended up supporting the big loan guarantees for Chrysler, the "bailout." The reason is that if we don't do something, a gigantic industry will go down, and with it, hundreds of thousands of jobs, community economic health, small industries and small businessmen who supply the Chrysler industries.

Whether we like it or not, we are in a world in which government intervention is growing. I think it is important to recognize this reality. Instead of the irrational form of intervention we're seeing, we should institute a more efficient, more highly focused, more coherent form that produces something useful. I don't think the Chrysler bailout was a very good idea. I do think it would be good for us as a nation if we sat down and added up the number of railroad cars and busses and mass transit vehicles that we as a society are going to need for public transit systems over the next ten years. Then we could say to Chrysler something like: "If you'll convert your facilities, we will give you a contract to build railroads, bus and mass transit, which we are going to purchase as taxpayers in any event." The idea is "conversion, yes; bailout, no."

The old slogans about getting the government out are largely slogans. We see the major steel companies going to the government for more assistance; we see the auto industry going to the government. And the energy companies are intimately involved with government through the new synthetic fuel corporation. So even as the rhetoric goes one way, the reality is moving in the other direction in this country and other countries. The real question is, will we be able to do it intelligently and rationally, rather than sit back and sloganeer at each other about a situation that's pretty much decided?

H. BREWSTER ATWATER, JR.

Government will continue to be the place where many societal conflicts involving our economic system are aired and dealt with. An example of this is the trade-off between our need for industrial growth and new energy and its environmental consequences. Government's judgments may change. For example, government may well decide that some relaxation of specific environmental regulations are needed to foster industrial development or that other forms of regulation should be modified. But government will remain the ultimate arbiter of the trade-offs.

What I hope we may see less of in the eighties is the substitution of bureaucratic judgment for the marketplace. There is no compelling reason for government to regulate the marketing of safe products simply because a group of regulators does not like the product. Nor do I think government should be in the business of industrial restructuring, resting on a belief on its part that bureaucratic action can produce a theoretically ideal market. This kind of government intervention in the market economy is wasteful, injurious and just plain wrong-headed.

At a minimum, I am hopeful that the public now understands that regulation and other forms of government intervention involve real costs to the economy, often invisible at first, that must be carefully weighed against a realistic assessment of expected benefits.

CONGRESSMAN BILL FRENZEL

For the next decade, it is inevitable that the role of government in our relatively free economic system must decline. But it is equally inevitable that it will decline slowly and unevenly.

Most Americans believe that we already have more government than we want, and that government regulation is excessive, a drain of perhaps $150 billion on our economy. Both political parties and all candidates preach incessantly on the need to deregulate, to let the free market do its own thing. The concensus for a more unfettered economy seems overwhelming.

But, in the same way it is am-

bivalent on federal spending, America is ambivalent on government interference in the marketplace. For every company screaming for less regulation, there are several busily trying to build regulatory fences around their markets or their industries.

The American people still distrust big business and will continue to look to Washington for protection. They fear for their own health and safety, and they continue to maintain a high level of concern for a better environment. Perhaps nothing will do more for America than getting the government off the backs of the people. But since each little piece in the regulatory puzzle has its own constituency, the reduction of federal interference will be a series of hard-fought battles, and progress will be uneven and slow.

SENATOR CARL LEVIN

Government will continue to take part in the operation of the U.S. economy. For a number of reasons, people will expect protections they have traditionally sought from government. Health and safety standards will remain a vital concern. The challenge of redeveloping regional economies will require a cooperative spirit between the public and private sectors.

The economic challenge of the 80's will call on the federal government to enact measures that promote economic development while ensuring reasonable regulations in areas other than human safety and health. Such measures include the legislative veto, which would allow elected officials in Congress to veto regulations proposed by non-elected bureaucrats, sunset legislation, which would require review of programs at regular intervals, and paperwork reduction. Another measure that the federal government could undertake to strengthen its commitment to economic prosperity would be a revision of the tax code to encourage productive investments and revitalizations of certain strategic industries. Finally, the federal government should make use of the opportunity to assist U.S. companies in developing export markets.

GUS TYLER

The government is deep into the economic system because everybody wants the government in the economic system. I have not yet met anybody who's opposed to it except when they speak in general. When they speak in specifics, everybody is for government intervention. Begin with the farmers. If the federal government were to withdraw price supports and parity, the farmers would rise in rebellion. They'd march on Washington and shoot the president. They want government intervention in the economy. Take people who favor parochial schools. They want the government to give money to parochial schools. And if you take people among minorities, they want the government intervening to protect the rights of minorities to hold jobs and live in certain neighborhoods. That is more government intervention.

The people who say they want less government want it where government is telling them that they have to do things they don't want to do. They think, "I would like to make a lot of money and pay no taxes. I ask for less government. At the same time, if I am in trouble, I come to the government and say rescue me." So everybody wants something from the government, but nobody wants to give anything to the government. It's a very simple appeal — less government — because it assumes that the government will still be there doing what it's doing, except it won't cost you anything. Obviously, that's never going to happen.

No society can function without government. The more complex society is, the more government you have to have. In a primative kind of society, I guess you could do with virtually no government at all because everybody would take care of himself. But in a complex society, you can't have everybody going out and doing anything they want. Society, complex as it is, requires organization, and organization means there has to be guiding intelligence and a guiding force.

Glossary

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balanced budget—a budget in which government spending equals government revenue (income).
balance of payments—the yearly statement which shows the amount of money spent on imports and the amount of money received for exports by a nation.
business cycle—the periodic up-and-down pattern of the economy from times of rapid growth to times of slower growth (recession).
cartel—a group of firms or nations which organize to eliminate competition in an industry. Cartels set price and production levels for each member to the mutual advantage of all members.
corporation—a firm which is owned by stockholders and controlled by corporate officers. It acts as a separate legal entity; corporate officers are not personally responsible for the debts or other obligations of the firm.
cost-effectiveness—using or operating under a method of production which is most efficient and results in the lowest cost per unit produced.
credit—an amount of money extended to a person or firm by a bank or other lender.
credit controls—devices used by the federal government to discourage the lending of money, thereby controlling the money supply and economic activity.
cyclical unemployment—the rate of unemployment (most often temporary) caused by a slow-down in economic activity, i.e. a recession.
deficit—a debt which occurs when government spending exceeds government revenue (income).
demand—the amounts of goods and services which will be purchased at given price levels.
depreciation allowance—the rate at which a business can lower the estimated value of its equipment and facilities in order to reduce the amount of taxes it pays on them. (As equipment and facilities get older they lose value, i.e. depreciate).
depression—severe economic downturn with high levels of unemployment, low levels of production and decreased income.
deregulation—the act or process of removing government restrictions placed on certain aspects of the economy or society such as the lifting of restrictions on the airline, railroad and trucking industries.
developing nations—the nations in Africa, South America and Asia which are not industrialized and which rely heavily on the export of raw materials and agricultural products for revenue. These nations usally have per capita GNPs less than $100 and high illiteracy and birth rates.
development—the process of moving from an agricultural economy to an industrial economy, especially in developing nations. Development is carried out through social, political and economic policies aimed at improving material welfare, eliminating mass poverty, high illiteracy rates and early death, developing the ability of nations to supply their own goods and services, and reducing their debts to other nations.
Federal Reserve Board (Fed)—a group of seven individuals appointed by the president who are responsible for monitoring and controlling economic activity through the money supply. Devices used to control are interest rates and credit controls.
fiscal policy—measures aimed at affecting economic activity through government spending and taxes.
fixed incomes—incomes which do not change with a change in the cost of living, e.g., some pensions and non-union wages.
free enterprise—an economic system based on private ownership in which business operates without government interference. Prices are set by the interaction of supply and demand.
frictional unemployment—the amount of unemployment which results from movement by people from one job to another.
goods—items or commodities produced, e.g. wheat, clothing, televisions, cars, etc.
GNP (Gross National Product)—the total value of goods and services produced in a nation during a specific period of time, usually a year.
International Monetary Fund (IMF)—a fund established in 1944 and intended to provide money for nations experiencing temporary trade deficits. Each member nation is expected to contribute a percentage of its income to the fund every year.
indexing—the practice of adjusting wages and/or payments to offset the impact of inflation. When the cost of living increases, indexed wages and payments increase automatically, thus maintaining the same "real" income or payment.
inflation—a continuing increase in the general price level.
inflationary expectations—attitudes of consumers and producers which anticipate a continuing rise in the level of prices and wages.
interest rates—the cost of using borrowed money; also, the income of lenders. They are stated as a percentage of the total money borrowed to be paid in a given time period.
investment—spending for new capital goods, e.g. new equipment, machinery (new facilities), research for new technology, etc. for the purpose of increasing productive capacity.
job training—government or private industry programs which teach skills to people who are either unskilled or whose skills are outmoded in order to prepare them for employment.
labor market—the pool of available workers with varying levels of skill, education and training who are willing and able to work.
loan guarantee—an agreement made by a third party (e.g. government) to pay off a loan to a lender if a borrower fails to do so.
market forces—the forces of supply and demand which operate to set prices and levels of production.
marketplace—sets of points of contact between buyers and sellers; the arena in which business transactions take place, not necessarily a geographic location.
minimum wage—the least amount of money per hour an employer can pay an employee.
mixed economy—an economy that combines free enterprise with some government regulation or ownership of business.

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monetary policy—governmental measures aimed at affecting economic activity through changes in the money supply. Devices used are interest rates and credit controls.
OPEC (Organization of Petroleum Exporting Countries)—a cartel (defined above) composed of twelve nations which are the world's leading producers of oil. OPEC has been successful, since 1973, in controlling the prices and levels of production of member nations' oil, and thus in obtaining consistently higher prices for oil.
private sector—that part of the economy which is managed and owned by individuals, individual firms and corporations, for the benefit of individuals.
productivity—the amount of goods and services produced by the average worker during a specific period of time.
public sector—that part of the economy which is directed and managed by government for the purpose of benefiting society as a whole.
quotas—limitations placed on the quantities of certain products which can be imported each year.
real income—a measure of income which takes into account changes in prices; the amount of goods and services an income will buy.
recession—moderate economic downturn, not as severe as a depression, associated with increases in unemployment. Officially, a recession occurs when production falls for two consecutive quarters.
revenue—income; money taken in by the government from taxes, duties, customs and other sources and used to pay public expenses.
savings—the part of a person's (or firm's) after-tax income which is not spent on consumer goods or services.
services—activities desired or needed by the public, which are offered for sale, e.g. tailoring, maintenance and repair work, waitressing, etc.
socio-economic group—the "class" one belongs to, determined by levels of income and education, cultural background, values held and type of job.
standard of living—the level of necessities, comforts or luxuries aspired to or enjoyed by a person or group and considered important to maintaining one's status or circumstances.
stockholders—the owners of a corporation; those people who invest money in a corporation by buying shares which entitle them to dividends, a proportion of the profits.
structural unemployment—the rate of unemployment caused by changes in the organization of the economy, even when the economy is operating at full capacity. This rate accounts for workers who have been laid off or cannot find jobs because their skills do not match available jobs.
supply—the amounts of goods and services which will be produced at given price levels.
tariffs—taxes on imports (goods brought into a country).
Third World—term used to describe the group of developing nations.
unemployment—the condition of being unable to find work when willing and able to work.
unemployment rate—the percentage of able-bodied individuals who are willing to work but are unable to find work.
wage-price spiral—the cycle of increasing wages and prices which occurs because of business' desire to cover costs and labor's desire to maintain real income. When a business raises prices, workers demand a higher wage to pay the higher price. Business, in turn, raises prices to cover labor costs and so on.
World Bank—a multilateral institution which loans money to developing nations for projects which usually do not attract private financing. The World Bank raises money through donations from developed nations which hope to gain from the economic growth of developing nations.

The Close Up Foundation

The Close Up Foundation is a nonprofit, multipartisan organization dedicated to encouraging the involvement of young people in the democratic process. The Close Up Foundation has no affiliation with any branch of government, political party or interest group. The Foundation's board of advisors includes representatives of both political parties and many political viewpoints.

The Close Up Foundation runs a Washington seminar program that brings high school students and their teachers to the nation's capital for a week-long, on-site learning experience. In the 1981-82 school year, approximately 14,000 young people and educators will participate in the Close Up Washington experience.

In addition to the Close Up Washington program, the Foundation publishes resource books and materials about American government, including *Perspectives*, a book of original articles written by policy makers and other knowledgeable insiders, and *Current Issues*, readable and balanced summaries of the major issues of the day. Close Up also televises four series of Washington-based seminars for use in classrooms across the country. In addition the Close Up Foundation sponsors local Close Up programs for studying state and local government, parallel programs for international students and handicapped individuals during the regular sessions, and a teacher program designed to complement the student experience.

For more information about these or other Foundation programs, contact Close Up Foundation, 1235 Jefferson Davis Highway, Arlington, Virginia 22202.